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# Designing a State Grant Program: The Basic Question for Policymakers

**By Jerry S. Davis**

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*This paper outlines the relationships between state grant program goals and their effects, and the consequent difficulties in designing successful programs. Guidelines for thinking about these inter-relationships are offered to help policymakers design grant programs that can most efficiently and effectively achieve their many goals.*

As state grant programs mature, their administrators and the legislators who fund them sometimes question whether the programs are achieving the most important goals and aiding the students they most want to help. When this happens, policymakers begin to consider re-designing or "re-engineering" their programs. But designing or re-designing state grant programs isn't easy, primarily because policymakers frequently do not understand the sometimes conflicting inter-relationships between program goals and effects. The purpose of this paper is to describe these relationships and provide some guidelines for designing state grant programs.

The Basic Question in the design of any state grant program is, "Who should receive how much aid to attend which kinds of postsecondary institutions for what purposes?" Policymakers' answers to all parts of this question are crucial to a program's design and answers to each part must necessarily affect answers to other parts. It is recognized that individual policymaker's answers will depend in large part on their particular values and political environments, but it is assumed that all public policymakers place a high value on program efficiency and effectiveness. They want their programs to produce desired effects with a minimum of effort, expense, and resources; and they want their programs to achieve intended goals without producing unintended and undesirable effects.

A discussion of possible answers to the Basic Question could begin with matters of who the program should aid, because who any public program is intended to serve is vital to whether it will be implemented, funded, and survive. But the discussion can also begin with the primary reason why there is a public program in the first place. So the discussion begins with grant program purposes.

## **For What Purposes Should State Grants Be Awarded?**

There are many reasons for awarding state grants. Most state grant programs attempt to achieve the three traditional goals of financial aid programs: (1) to enhance student access to postsecondary education; (2) to enhance student choice among institutions of widely different costs; and (3) to enhance student retention in their programs until education goals are achieved.

Some state grant programs try to help "equalize" tuition charges between public and private colleges. This is done by giving state grants

to students to attend private colleges, thereby reducing the gap between public and private college net costs after grants, helping recipients choose higher cost private colleges, and helping support the private institutions' enrollment efforts. Sometimes state grant programs intend to encourage students to prepare for occupations where critical labor shortages are perceived. Other programs intend to reward recipients for prior achievement (as in academic scholarship programs or programs for veterans) or to provide students with benefits in recognition of their parents' service (as in the case of awards to dependents of veterans, firefighters, or police officers).

As will be shown below, a program's primary purpose has a great influence on who receives how much aid to attend which institutions. For example, programs that emphasize the access goal will necessarily distribute funds among students differently than will programs emphasizing other goals.

Although they may have different goals, all state grant programs appear to have three things in common. First, they intend that award participants will do something they would not have done or have been able to do without their grants, whether that "something" involves enrolling at some postsecondary institution or a specific institution, studying a particular subject, pursuing a certain occupation, or trying harder to excel, perhaps in gratitude for having received a scholarship.

Second, state grant programs intend to be *effective*, by achieving their program goals, and to be *efficient*, by pursuing those goals with the minimum expenditure of available resources.

A third thing they have in common is that they are unlikely to be funded at levels which permit policymakers to achieve all their program goals. Therefore, policymakers will very likely have to somehow limit their program purposes, the amounts of money they award, the number of students assisted, and/or the institutions recipients might attend.

#### **Who Should Receive State Grants?**

The potential answers to this question are myriad, but typically are limited to two major ones: should state grants go to financially needy students? And, should receipt of state grants be based on academic performance, intended major or career, or some other non-financial criteria?

Awarding grants to students who are not financially needy will not represent an *efficient* use of dollars because it provides money to some students who can afford to attend without grants and would have done so. It would, however, represent an *effective* use of grant funds if the program's primary purpose was simply to reward certain students.

Awarding grants on the basis of superior academic performance increases the probability that recipients will succeed and achieve the retention goal. But it decreases the probability that lower-income students will receive awards since they generally have not achieved high test scores or grades.

Awarding grants to students who plan to pursue some academic major or career is likely to limit the number of students aided. It also represents a somewhat inefficient practice because some recipients will change majors or careers after getting a grant.

A policy decision to award grants to needy students raises the issue of defining "financial need." There are two ways to do this: (1) by comparing the recipients' overall family financial strength or "ability to pay" for postsecondary education and giving preference to students with the least "ability to pay;" and (2) by subtracting the recipients' "ability to pay" from their costs of education and giving preference to students with the highest "financial need."

If awards are based on "ability to pay," lower-income students are likely to receive more of the funds and students at public institutions, especially the community colleges, are likely to get more grant dollars because lower-income students are more likely to attend public rather than private colleges. Because lower-income students will have lower average needs when attending public colleges, basing awards on "ability to pay" is likely to result in more students assisted from a fixed amount of funds.

If awards are based on "financial need," middle-income students who attend four-year colleges, especially private ones, are likely to get more grant dollars, because their costs of attendance will be higher and, therefore, their "financial need" will be greater than that of lower-income students attending public colleges.

**Which Kinds of  
Institutions Should State  
Grant Recipients Attend?**

State grants are spent to attend specific institutions. Therefore, they can be considered indirect institutional aid representing discounts of costs of attendance which, in turn, can affect enrollment choices.

Giving state grants to students to attend state-supported institutions helps to maximize the *effectiveness* of all state tax dollars spent on postsecondary education. Public institutions are to provide affordable education to a state's citizenry. But if their citizens cannot afford to enroll, then states will not receive the maximum benefits from the millions already invested in establishing and maintaining the public institutions.

If a relatively small additional amount of money for state grants enables students to enroll at the public institutions, achieve their educational goals, and maximize the state's investment in its institutions, then it seems appropriate for policymakers to ask state grant recipients to attend them, in part to increase the *effectiveness* of the state's total support of postsecondary education.

The case for providing grants to students to attend private colleges can be made on the basis of *efficiency*. It generally costs states additional dollars when enrollments grow at the public colleges. And it costs states even more dollars if the public colleges' students are also state grant recipients. Therefore, if the states give enough grant aid to students to afford to attend private colleges, *and the grant amounts are less than the combined per capita direct subsidies and state grant awards would be if the recipients attended public institutions*, it will cost less to educate the students. Thus, the states will have used their funds more *efficiently*.

Deciding to let students enroll at many different kinds of postsecondary institutions acknowledges the fact that all institutions do not have equally appropriate programs, environments, and services for

every student. Students have different needs that are better met by different institutions.

Some state grant programs let students choose which institutions they want to attend, and others try to enhance their recipients' ability to choose, attempting to achieve the choice goal in financial aid.

When deciding to help grant recipients enroll at the institutions of their choice, policymakers must recognize that they are likely to spend more grant funds on fewer students, because some will want to attend higher-than-average cost institutions. When their cost of attendance is higher, their financial need is greater. If their financial need is greater, then their need for enough aid to afford the higher cost colleges will increase the demand on the program's dollars.

Assuming that program funds are finite, a program that emphasizes choice is likely to make fewer awards than will a program emphasizing access, because its average award will probably need to be larger.

Even if a grant program emphasizing choice does not make awards on the basis of financial need, because average attendance costs will be higher, a higher average grant will be needed to have any meaningful effect on the recipients' ability to afford to enroll. Therefore, fewer students will receive grants.

On the other hand, a grant program emphasizing access to lower-cost, usually public, institutions will be able to make smaller average awards. This is because lower costs result in lower need (for grants from a "need-based" program) and smaller "non-need-based" grant awards can have a meaningful effect because they will cover a larger percentage of the costs. Therefore, grant program dollars generally help larger numbers of recipients if they attend public rather than private institutions.

#### **How Much State Grant Aid Should Students Receive?**

The most obvious answer to "How much?" is "Enough to achieve the program's goals." But, state grant programs generally are not sufficiently funded to achieve all the goals for as many students as desired. Therefore, policymakers have to consider "How much aid" is necessary for their program to be effective for the students they can help.

One way to increase the effectiveness of awards is to consider the aid amounts available to recipients from other sources, such as the federal government, the students' institutions, or private scholarships.

Whether to consider grant recipients' access to aid from other sources introduces another question: should grant program awards complement, supplement, or disregard aid from other programs and sources?

A complementary state grant program provides assistance to students not served by other aid programs. For example, a complementary program might serve students who are enrolled on a less-than-half-time basis. A supplementary state grant program provides *additional* assistance to students already being served by other aid programs but whose financial aid needs are not fully met by those programs.

A complementary state grant program generally fills the gap in *types of students* needing assistance; a supplementary program generally fills the gaps in *amounts of assistance* needed by aid recipients.

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*"Policymakers frequently do not understand the sometimes conflicting inter-relationships between program goals and effects."*

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Policymakers may decide to disregard the kinds of students assisted by other parties and the amounts and types of assistance available to them. They are most likely to do this when they consider grants rewards for recipients' previous or expected achievements, as in the case of non-need-based scholarships and award programs for veterans or their dependents. In these instances, their answers to the "How much aid" part of the Basic Question will largely depend on their program's funding levels and the numbers of students they want to assist.

Policymakers wanting to *complement* other aid programs have to consider what grant amounts will enable their target recipients to achieve whatever program goals are intended. If, for example, the policymakers are interested in helping less-than-half-time students gain access to community colleges, their award amounts might be relatively small, covering the recipients' modest tuition and fees and perhaps some of their books and supplies while asking them to pay for their living expenses. But if they wanted to help grant recipients achieve some degree of choice, and help some less-than-half-time students enroll at higher-cost private universities rather than community colleges, then their award amounts would need to be more substantial to cover the higher tuitions.

Answers to "How much aid" for policymakers wanting to *supplement* other aid programs' awards, will depend on how much aid the target grant recipients receive from other sources.

#### *Answering The Basic Question*

By now it should be apparent that answers to one part of the Basic Question interact with and establish parameters for answers to other parts. How answers to parts of the Basic Question interact can best be summarized and illustrated by looking at the cells in Figure One, "Interaction of Goals and Outcomes of State Grant Programs." For example, if "Access" is a program's emphasized goal, the program is likely to: supplement aid from other sources, particularly the Pell Grant program; award most grant dollars to lower-income students; emphasize the recipients' ability to pay; place little emphasis on merit; make most awards to students to attend public colleges, most likely community colleges; make relatively small average awards; make awards to relatively large numbers of students; and make more awards to students in the initial years of their postsecondary education, because many will enroll at two-year colleges.

On the other hand, if "Choice" is a program's emphasized goal, it is likely to: both supplement and complement aid from other sources; award most dollars to middle-income students; emphasize the recipients' financial need; place little emphasis on merit (but recipients are more likely to exhibit merit because they will be more likely to attend more selective colleges); make more awards to students to attend four-year private colleges and public universities; make relatively large average awards as more students will attend higher-cost institutions; make fewer awards to students as individual grants will be larger; and make more awards to students in later years of college.

**FIGURE 1**  
**Interaction of Goals and Outcomes of State Grant Programs**

Probable Outcomes	Program Goals				
	Access	Choice	Retention	Reward Talent	Equalize Tuition
Supplement or Complement Federal Pell Grants	Supplement	Supplement & Complement	Supplement & Complement	Complement	Complement
Likely Recipient Income Levels	Mostly Lower Income	Mostly Middle Income	Mostly Middle Income	Middle & Upper Income	Middle & Upper Income
Emphasis on Financial Need or Ability to Pay	Ability to Pay	Financial Need	Both	Neither	Neither
Emphasis on Academic Merit	No	No	No	Yes	No
Recipients' Likely Institutional Sectors	Public/4-Year and Community Colleges	Private/Public 4-Year	Private/Public 4-Year	Private/Public 4-Year	Only 4-Year Private
Relative Average Award Size	Relatively Small	Larger Than Access	Larger Than Access Smaller Than Choice	Smallest	Largest
Relative Number of Awards	Largest Number	Fewer Than Access	Fewer Than Access; More Than Choice	Larger (Same as Access)	Fewer
Academic Years Targeted	Early Years	Later Years	Later Years	Later Years	Later Years
					Early/Middle

If "Retention" is a program's emphasized goal, it will make more awards to four-year college students, because they will be enrolled for more years. It will make larger average awards than if "Access" is emphasized, because more recipients will attend higher-cost four-year institutions, but slightly smaller average awards than if "Choice" is emphasized, because many lower-income recipients who make it into the first years of college will not make it into the latter years.

"Equalizing Tuitions" is likely to result in complementing aid from other sources because many high-income students attending private colleges with no aid from such sources would qualify for grants.

Programs that emphasize preparation for a particular career are likely to both supplement and complement other programs, make non-need-based awards to enlarge the potential pool from which recipients can be drawn (even though many will be financially needy), make more awards to public than private college students because more students attend the former, make larger average awards to provide incentives to students to pursue some career, but make fewer awards than other programs because not as many students will choose a specific career.

## **Summary and Conclusions**

There are many factors to consider in designing or re-designing a state grant program. The most important involve answers to the Basic Question "Who should receive how much aid to attend which kinds of institutions for what purposes?" If these questions, and the issues underlying potential answers, are addressed while paying careful attention to the many inter-relationships illustrated above, policymakers should be able to design or re-design a state grant program that optimizes their goals, resources, and intended outcomes. Because, once goals are decided upon, it is relatively easy to construct policies to achieve them.